

Message Text

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ORIGIN EB-08

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FM SECSTATE WASHDC
TO AMEMBASSY MADRID PRIORITY

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E.O. 11652: N/A

TAGS: ETRD, SP

SUBJECT: TREASURY/SPANISH CONSULTATIONS REGARDING COUNTER-
VAILING DUTY

REF: MADRID 6133

1. A SPANISH DELEGATION, CONSISTING OF ANTONIO ARRAN7
OF THE SPANISH MINISTRY OF FINANCE, LUIS ALLAIDE DE LA
ROSA AND FERNANDO BALLESTERO DIAZ OF THE TRADE MINISTRY,
JOSE M. SIERRA AND LUIS MARTINEZ-AREVALO OF THE
SPANISH EMBASSY, MET ON JULY 5 AND 6 WITH TREASURY RE-
PRESENTATIVES LED BY DEPUTY ASSISTANT SECRETARY PETER
SUCHMAN AND DICK SELF TO DISCUSS COUNTERVAILING DUTY CASFS
REGARDING SPANISH EXPORTS TO THE U.S. OF ZINC, SHOES,
CHAINS, ETC.

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2. THE SPANISH BEGAN THE DISCUSSION BY STATING THAT ACTIONS
TAKEN BY THE TREASURY DEPARTMENT CAN HAVE A SIGNIFICANT
EFFECT ON THEIR EXPORTS, PARTICULARLY AT THE PRESENT TIME
SINCE THEIR ECONOMY IS SLUGGISH AND THEY HAVE BALANCE OF
PAYMENT PROBLEMS. THE SPANISH ALSO INDICATED THEY WERE
DEVELOPING PLANS TO RESTRUCTURE THE ENTIRE SPANISH TAX
STRUCTURE ALONG THE LINES OF THE EUROPEAN COMMUNITY VALUE

ADDED TAX AND WOULD IMPLEMENT FISCAL AND MONETARY REFORMS. THE RESTRUCTURING OF THE SPANISH TAX SYSTEM IS INTENDED TO FACILITATE SPAIN'S ENTRY INTO THE EC AND WOULD ELIMINATE TAXES WHICH ARE HINDERING THE GROWTH OF SPANISH BUSINESSES AND EMPLOYMENT. FOR EXAMPLE, SPANISH FIRMS CURRENTLY ATTEMPT TO MINIMIZE THE NUMBER OF EMPLOYEES THEY HAVE SINCE THEY ARE REQUIRED TO PAY A TAX EQUAL TO FORTY PERCENT OF EACH WORKER'S SALARY TO THE NATIONAL SOCIAL SECURITY FUND.

3. TREASURY OFFICIALS BEGAN BY ACKNOWLEDGING THE IMPORTANCE OF EXPORTS TO THE SPANISH ECONOMY. DISCUSSION THEN TURNED TO THE TREASURY LETTER PREVIOUSLY PROVIDED TO THE SPANISH REGARDING THE FOOTWEAR AND BOTTLED OLIVE CASES. (A COPY OF THE TREASURY LETTER IS BEING AIRPOUCH-ED). TREASURY REITERATED THAT IT DOES NOT REGARD THE REBATE OR REFUND ON EXPORT OF INDIRECT TAXES AS A "BOUNTY OR GRANT" EXCEPT IN CASES WHERE IT CAN BE ESTABLISHED THAT AN OVER-REBATE EXISTS OR WHERE THE TAXES REBATED OR REMITTED ARE NOT DIRECTLY RELATED TO THE PRODUCT OR COMPONENT. ONE OF TREASURY'S CHIEF CONCERNS IS THAT AT PRESENT SPANISH REBATES ON EXPORTS INCLUDE REMITTANCES ON AMORTIZATION OF CAPITAL EQUIPMENT, SERVICES, AND ENERGY WHICH FALL INTO THE CATEGORY OF INCIDENTAL AND OVERHEAD EXPENSES; TREASURY DOES NOT LIMITED OFFICIAL USE

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CONSIDER THESE ITEMS TO BE DIRECTLY RELATED TO THE PRODUCT OR ITS COMPONENTS.

4. THE SPANISH REPLIED THAT THERE ARE INPUTS WHICH ARE SUBJECT TO TAXES BUT ARE LOST IN THE MANUFACTURE OF THE PRODUCT, E.G. LARGE AMOUNTS OF ELECTRICITY ARE USED IN PRODUCING ZINC AND LEATHER SCRAP IS LOST DURING THE PRODUCTION OF SHOES. THE SPANISH ALSO FELT THAT A REFUND TO COVER THE AMORTIZATION OF CAPITAL EQUIPMENT WAS JUSTIFIED SINCE THE SPANISH TAX SYSTEM DOES NOT INCLUDE A CORPORATE TAX DEDUCTION FOR EQUIPMENT PURCHASES. THEY EXPLAINED THAT AMORTIZATION OF CAPITAL EQUIPMENT IS INCLUDED IN THE COMPUTATION OF TAXES IN MOST COUNTRIES AND HAS AN INDIRECT EFFECT ON PRICES OF MANUFACTURED GOODS. THE SPANISH SAID THAT ACCORDINGLY, A CAPITAL AMORTIZATION COMPONENT MUST BE INCLUDED IN THE CALCULATION OF THE "DESGRAVACION FISCAL" IF SPANISH PRODUCTS ARE TO BE ON AN EVEN FOOTING WITH FOREIGN GOODS.

5. THE SPANISH ALSO PROVIDED A COPY OF THE FORMULA WHICH THEY USE FOR CALCULATING REBATES FOR VARIABLE

OVERHEAD COSTS OF PRODUCING ZINC. THE FORMULA IS BASED ON THE 1958 INPUT-OUTPUT TABLES. (A COPY IS BEING AIR-POUCHED.)

6. TREASURY EXPLAINED THAT IT SEEKS TO SEE IF A TAX SYSTEM IS TRADE NEUTRAL - I.E. THAT THE SYSTEM DOES NOT GIVE AN EXPORTED PRODUCT A PRICE ADVANTAGE VIS-A-VIS A DOMESTIC PRODUCT.

7. A MEMORANDUM OF THE MEETING WAS AIRPOUCHED TO THE AMEMBASSY ON JULY 14, 1977.

FYI -- TREASURY OFFICIALS FOUND THE MEETING EXTREMELY USEFUL AND APPRECIATED THE DETAILED TECHNICAL ANALYSIS PROVIDED BY THE SPANISH DELEGATION WHICH THEY ARE STUDY-LIMITED OFFICIAL USE

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ING. END FYI.

CHRISTOPHER

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Message Attributes

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Copy: SINGLE
Sent Date: 22-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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